# LEGISLATIVE SERVICES AGENCY
## OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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## FISCAL IMPACT STATEMENT

**LS 6646** | **NOTE PREPARED:** Apr 8, 2003
**BILL NUMBER:** SB 122 | **BILL AMENDED:** Apr 7, 2003

**SUBJECT:** Grievance Appeals.

**FIRST AUTHOR:** Sen. Gard | **BILL STATUS:** CR Adopted - 2nd House
**FIRST SPONSOR:** Rep. Herrell

**FUNDS AFFECTED:** X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

**Summary of Legislation:** (Amended) This bill allows a political subdivision to self-insure and cooperate with another political subdivision to cover liability risks. The bill amends certain reporting requirements with respect to political subdivision liability insurance. The bill provides that an accident and sickness insurer or a health maintenance organization that does not resolve an appeal within the statutory time frame commits an unfair and deceptive act or practice in the business of insurance. The bill also requires quarterly reporting regarding resolution of grievance appeals.

**Effective Date:** July 1, 2003.

**Explanation of State Expenditures:** (Revised) This bill may result in higher health insurance rates for state employees enrolled in health maintenance organizations. This increase is dependent upon two factors: (1) whether an HMO can resolve an appeal within the given 45-day time period, and (2) whether the insured grants an extension of time, beyond 45 days, to the insurer to resolve the appeal. If the answer to both of these is no, the appeal is automatically found in favor of the insured. Requiring insurers to make these expenditures may affect health insurance rates. The fiscal impact of this bill is undeterminable.

If insurance premiums increase, the state may choose to absorb any additional costs of these provisions or to pass these costs on to employees in the form of higher deductibles, higher premiums, or by limiting other conditions covered.

This bill also requires that a health maintenance organization that violates the 45-day time period must file a report with the Department of Insurance. The report must list the number of appealed grievance decisions that were not resolved and the reason. This report must be filed in the quarter that the violation occurred.

The bill requires that the Department of Insurance retain financial statements for insurance companies for ten years. The current statute requires a two-year retention. This provision may result in higher storage costs for the Department.

The bill includes a provision requiring insurance companies to file information regarding insurance issued to an Indiana political subdivision. The bill does not require the Department to use this data in any way. This provision is not expected to have any cost to the state or local entities.

*Background Information:* For CY 2002 the state spent a total of $279.6 M for employee health care. There are approximately 16,500 state employees currently enrolled in health maintenance organizations.

**Explanation of State Revenues:** (Revised) The bill makes a violation of the requirements for insurer and HMO grievance procedures an unfair and deceptive act and practice in the business of insurance. Violation of these requirements by an insurer may result in the levying of civil penalties. Civil penalties will be deposited in the state General Fund.

The civil penalties set forth for committing an unfair and deceptive act and practice in the business of insurance are $25,000 for each act or violation, or $50,000 for each act or violation if the person knew or reasonably should have known that they were in violation of this chapter. Total revenue is dependent upon number of occurrences.

**Explanation of Local Expenditures:** (Revised) This bill may result in higher health insurance rates for employees of local governments and school corporations enrolled in health maintenance organizations and group insurance plans. This increase is dependent upon two factors: (1) whether an HMO or group insurer can resolve an appeal within the given 45-day time period, and (2) whether the insured grants an extension of time, beyond 45 days, to the insurer to resolve the appeal. If the answer to both of these is no, the appeal is automatically found in favor of the insured. Requiring insurers to make these expenditures may affect health insurance rates. The fiscal impact of this bill is undeterminable.

It is unknown if local groups would absorb any additional costs resulting from this bill or pass the costs on to employees in the form of higher deductibles, higher premiums, or by limiting other conditions covered. Cost sharing of health benefit premiums varies widely by locality.

In addition, the bill includes a provision that allows a political subdivision to maintain a program of self-insurance or to act in concert with other subdivisions to provide a program, a pool, a trust, or an agreement. Currently political subdivisions are limited to purchasing policies of liability insurance. It is unknown how frequently a political subdivision may use this option. In the short-term the political subdivision may save money on insurance premiums. However, the long-term risk may be higher.

**Explanation of Local Revenues:**

**State Agencies Affected:** All.

**Local Agencies Affected:** All

**Information Sources:**

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